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DARLENE GREEN
Comptroller



OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS

Internal Audit Section



DR. KENNETH M. STONE, CPA
Internal Audit Executive

Carnahan Courthouse Building
1114 Market St., Room 642
St. Louis, Missouri 63101
(314) 622-4723
Fax: (314) 613-3004

February 3, 2009

Todd Waelterman, Director
Street Department
1900 Hampton Avenue
St. Louis, MO 63139

RE: Scrap Metal Sales and Bike Rack Barricade Rentals (Project #2009-21)

Dear Mr. Waelterman:

Enclosed is a report of the special review of the Street Department's scrap metal sales and bike rack barricade rentals for the period July 1, 2007 through September 30, 2008. The objectives of the review were to determine if there are adequate controls in place to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial information
- Reliability and integrity of operational information
- Economic and efficient use of resources

This special review resulted from an anonymous petition alleging a number of improprieties committed by the top management of the Street Department. The scope of this special review was primarily limited to the revenues generated from the scrap metal sales and bike rack barricade rentals during the period July 1, 2007 through September 30, 2008.

The fieldwork was completed on November 14, 2008. Management's responses to the observations and recommendations noted in the report were received on January 26, 2009 and have been incorporated into the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.



CITY OF ST. LOUIS CITY OF ST. LOUIS

STREET DEPARTMENT

*SCRAP METAL SALES AND
BIKE RACK BARRICADE RENTALS*

*SPECIAL REVIEW
JULY 1, 2007 THROUGH SEPTEMBER 30, 2008*

PROJECT #2009-21

DATE ISSUED: FEBRUARY 3, 2009

*Prepared by:
The Internal Audit Section*



OFFICE OF THE COMPTROLLER OFFICE OF THE COMPTROLLER

HONORABLE DARLENE GREEN, COMPTROLLER

If you have any questions, please contact Internal Audit Section at (314) 622-4723.

Respectfully,

A handwritten signature in black ink that reads "Kenneth M. Stone". The signature is written in a cursive style with a large, stylized "K" and "S".

Dr. Kenneth M. Stone, CPA
Internal Audit Executive

Enclosure

cc: Honorable Darleen Green, Comptroller
Ronald Smith, Operations Manager, Office of the Mayor

**CITY OF ST. LOUIS
STREET DEPARTMENT
SCRAP METAL SALES AND
BIKE RACK BARRICADE RENTALS
SPECIAL REVIEW
JULY 1, 2007 THROUGH SEPTEMBER 30, 2008**

EXECUTIVE SUMMARY

Purpose

The audit objectives of the review were to determine if there are proper controls in place to ensure:

- Accomplishment of established objectives and goals
- Compliance with applicable laws, regulations, policies and procedures
- Safeguarding of assets
- Reliability and integrity of financial information
- Reliability and integrity of operational information
- Economic and efficient use of resources


Conclusion

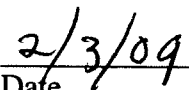
Based on the limited testing performed, nothing came to our attention to suggest any act of impropriety committed by the Street Department's management pertaining to the revenues generated from scrap metal sales and bike rack barricade rentals. However, opportunity exists for the Street Department to improve controls over the scrap metal sales and the bike rack barricade rentals operations. The following are the observations resulting from our review:

1. Opportunity to improve internal controls over scrap metal sales
2. Opportunity to improve internal controls over bike rack barricade rentals
3. Opportunity to recover costs of bike rack barricade rentals

Each of these observations is discussed in more details in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

This review was made under authorization contained in Section 2, Article XV of the Charter, city of St. Louis, as revised and has been conducted in accordance with the *International standards for the Professional Practice of Internal Auditing*.


Dr. Kenneth M. Stone, CPA
Internal Audit Executive


Date

**CITY OF ST. LOUIS
STREET DEPARTMENT
SCRAP METAL SALES AND
BIKE RACK BARRICADE RENTALS
SPECIAL REVIEW
JULY 1, 2007 THROUGH SEPTEMBER 30, 2008**

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OBSERVATIONS

Status of Prior Observations

Internal Audit Section did not review the Street Department's scrap metal sales and bike rack barricade rental operations previously.

Summary of Current Observations

The opportunity exists for the Street Department to make certain improvements in controls over its scrap metal sales and bike rack rental activities. The following are the observations that have resulted from the review:

1. Opportunity to improve internal controls over scrap metal sales
2. Opportunity to improve internal controls over bike rack barricade rentals
3. Opportunity to recover costs of bike rack barricade rentals

Each of these observations is discussed in more detail in the *Detailed Observations and Recommendations* section of this report.

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

1. Opportunity to Improve Internal Controls over Scrap Metal sales

Sound internal controls over the scrap metal sales will ensure that all deliveries are accounted-for and payments received.

Scrap metal consist of the City property damaged beyond repair and item discarded by the City residents. Scrap metal are collected from various City locations based on the requests received and are stored at the Street Department. At the end of each month, these scrap metal are sold to PSC Metal, Inc. (buyer) by weight.

Collection of Scrap Metal

- Street Department does not keep records of the scrap metal collected.

Removal of Scrap Metal for Sale

- Street Department does not maintain any records of scrap metal sales. In addition, the sales of scrap metal do not require a supervisory approval.
- Street Department's records of scrap metal sales is based on the confirmation (sales tickets) received from the buyer when the material is delivered to the buyer and consist of the date of delivery, scrap tonnage, truck number, and the ticket number.

Receipts from Scrap Metal Sales

- Street Department does not receive any payment from the buyer directly. The buyer makes all payments for the sale of scrap metals to the City Refuse Division of the Street Department, which has similar arrangements with the buyer for its scrap metals sales. Refuse Division deposits the proceeds of the sales with the City Treasurer's Office and forward a copy of the Receipt Coding Form (RCF) to the Street Department for its share of the proceeds. Street Department utilizes this information to update its own records (created from the sales tickets).

Since the Street Department does not keep its own records of the scrap metal sales and there is no supervisory approval of the deliveries to the buyer:

- Diversion of scrap metal hauled from the Street Department to unknown locations may go undetected.
- Payments for all scrap metal sales cannot be ensured.
- City truck driver may collude with the buyer's employee to have deliveries not documented.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Continued...

All these control weaknesses may result in the revenue losses to the City.

Recommendation

It is recommended that the Street Department:

- Maintain records in weight of all collections of scrap metal.
- Maintain its own records of scrap metal sales based on deliveries to the buyer and not on the sales tickets received from the buyer.
- Initiate supervisory approval and observation of each scrap metal delivery.
- Provide the Refuse Division with information on scrap metal delivered to the buyer.
- Reconcile payments received to the deliveries of scrap metal made based on its records.

Management's Response

1. *The Street Department will require all drivers to maintain a logbook to document the following:*
 - a. *Weights of all scrap metal collected – empty roller and loaded roller.*
 - b. *Supervisory signature verifying information documented in logbook.*
 - c. *Date of delivery, truck number*
2. *The Street Department will reconcile monthly payments (RCF's received from the Refuse Department) for scrap metal collections to the driver's log books and scrap metal tickets and submit the information to the Refuse Division.*

DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT'S RESPONSES

2. Opportunity to Improve Controls over Bike Rack Barricade Rentals

Adequate documentation of and internal controls over bike rack barricade (barricades) rentals will ensure adequate accounting of the issuance and return of the barricades, receipt of rents and refundable deposits.

Customers are not required to complete a formal application when renting the barricades. The clerk typist II records the applicant's information on a loose-leaf paper. The duties of the rental activities are not segregated and not supervised. The same person has the responsibility for:

- Taking request on the phone,
- Completing the application
- Authorizing the rentals
- Receiving rents and refundable deposits (only checks made payable to the City are accepted)
- Issuing the permits

The records of the barricade rentals consist of a folder containing the applicant's information, rent charged, refundable deposit received, and a copy of the permit issued. Copies of these documents and the rental checks are forwarded to the Street Department's accountant.

Street Department does not maintain internal records of the rents and refundable deposit received from the barricade rental activities. Consequently, a reconciliation of the revenues generated from these activities to the general ledger cannot be made. In addition, the refundable deposits are not separated from the rent. As a result, a liability for the refundable deposits is un-determinable at anytime.

Recommendation

It is recommended that the Street Department:

- Develop written policies and procedures for the barricade rental operations
- Develop application form (hard copy/on-line) to be completed by all barricade rental customers
- Maintain permanent internal record of the barricades rental applications, permits issued, rents received, refundable deposits received and refunded, and barricades rented and returned
- Establish supervisory review of all permits issued for the bike rack barricades
- Reconcile internal records of the barricade revenues and refundable deposits to the City general ledger.

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

2. Continued...

Management's Response

1. *The Street Department has developed Policies and Procedures for Barricade Rentals.*
2. *The Street Department has developed a Barricade Rental application, which requires Permittee, Clerk II and Clerical Supervisory to sign off on all before Barricades are rented.*
3. *The Street Department maintains internal files for all permits issued along with the Barricade Application. The Barricade Application will be attached to all barricade permits.*
4. *Accountant II will maintain spreadsheet tracking all deposit received and issued, and will reconcile monthly to ensure deposits are issued upon barricades being returned to the Street Department per policies and procedures.*

**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

3. Opportunity to Recover Costs of Bike Rack Barricade Rental Operations

Sound management practice requires operational efficiency and effectiveness to ensure the recovery of the services provided if a charge is made for the City services.

Street Department charges \$5.00 rent per barricade, which includes the delivery and removal of the barricades from the designated event venues. The department also charges \$1.00 per barricade as a refundable deposit for damages to the barricades.

Analysis performed on a sample of three barricade permits issued during the review period disclosed that the expenses exceeded the revenues generated from the barricade rental activities for two out of three rentals as follows:

Date	Permit #	Units Rented	Rent Received	Costs Incurred	Surplus (Deficit)
February 25, 2008	S53208	600	\$3,000	\$4,157	\$(1,157)
February 28, 2008	S53244	973	\$4,850	\$3,257	1,593
April 2, 2008	S53735	939	\$4,670	\$4,947	(277)
Surplus					\$ 159

Recommendation

It is recommended that the Street Department:

- Perform analysis of the average cost of labor and equipment and determine a reasonable fee per barricade that will ensure total costs are fully recovered.
- Establish a standard for labor hours or the number of crew members that will be assigned to an event depending on the numbers of barricades requested.

Management's Response

As per above the \$5 per bike rack rental rate balances out the three events tested. The events vary in needs, configuration and equipment use. The current method achieves an average recovery cost and can remain in place.